


IRWIN TOY LIMITED

ANNUAL REPORT



FOR THE YEAR ENDED JANUARY 31, 1975



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FINANCIAL HIGHLIGHTS

	1975	1974
Total assets	\$15,997,271	\$12,326,292
Net sales — Irwin Toy	\$14,846,577	\$12,490,358
Net sales — Irwin Toy and Joint Ventures	\$28,601,956	\$24,111,731
Net earnings	\$ 853,187	\$ 630,046
Retained earnings	\$ 5,498,029	\$ 4,937,978
Earnings per share	\$0.35	\$0.26
Working capital	\$ 3,692,865	\$ 3,296,679
Shareholders' equity	\$ 6,368,389	\$ 5,808,338
Number of shares outstanding	2,442,800	2,442,800

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Report to the Shareholders

Due to sharply rising costs which include wages, materials, and high interest rates, 1974 was a most difficult year. Nevertheless, earnings from operations after tax, showed an increase of over two hundred and twenty-three thousand dollars over the previous year. Our earnings were \$853,187 or 35 cents per share compared with \$630,046 or 26 cents per share. Because of an increase in borrowing, and higher interest rates, our cost of money increased by \$319,000 over the previous year.

The consolidated gross sales of your Company and its subsidiaries increased by 18.7% or \$2,454,257 in the year under review to a total of \$15,570,474.

Together with our joint venture companies 50% owned, the combined gross sales increased by 18.8% or \$4,843,774 to a total of \$30,540,845.

The profit in the last quarter of the year under review was reduced by

over 2 cents per share, by management's decision to expense all of our pool division start up costs that were incurred in that period.

Our increase in inventory is largely accounted for by our pool division. For the most part, this inventory will be shipped during the first four months of this year.

In the short run, the decision on the part of most of our customers to reduce inventories by the end of the year, hurt our combined sales in the fourth quarter which were up a disappointing 6% over the prior year. However, this decision also reduced their inventories of our goods to the point that we enjoyed a good reception from the trade at our Toy Fair this year. Toy Fair orders in hand show a marked improvement over last year.

We would like to express our deep appreciation of the job well done by our employees in 1974.

A. B. Irwin,
Toronto, Ontario,
April 30th, 1975.



Arnold B. Irwin, left, President of Irwin Toy Limited, and S. Macdonald Irwin, Executive Vice-President.

Joint Ventures

Until 1958, the Company was primarily engaged in the wholesaling of toys, novelties and souvenirs. During that year, the Company began acting as a sales agent for certain U.S. toy manufacturers who wanted to have their products distributed in Canada.

As a result of the Company's success in marketing U.S. toys in Canada, it then formed jointly owned companies which are managed by the Company.

The first of such joint ventures 50% owned, was Kenner Products (Canada) Limited, formed in 1960. The Company today, is in partnership with General Mills Inc. in this venture. Some popular Kenner Canada products are Snoopy Pencil Sharpener, Snoopy Power Toothbrush, Smash Up Derby, Give a Show Projector, Betty Crocker Easy Bake Oven, Spirograph and Baby Alive.

In 1965 the Company entered into a second 50% owned joint venture, Ideal Toy Company of Canada, Ltd., in partnership with Ideal Toy Corporation of the U.S.A.. Popular products produced by Ideal are Battling Tops, Rebound, Newborn Thumbelina, Baby Crissy, Evil Kneivel Stunt Cycle.

In 1971, Tyco Canada, Limited was incorporated as the third joint venture 50% owned company in partnership with Consolidated Foods Corporation. Tyco Canada Limited manufactures and markets H.O. Gauge Trains and Racing Cars.

The most recent joint venture 50% held company in partnership with Ideal Recreational Products of the U.S.A. was IRP Limited incorporated in 1974. Some products are swim fins, snorkels and masks.

Acquisitions

During the past year, Irwin Toy Limited has acquired Playco Limited, and the assets of Ideal Recreation Products Inc. of Hollis, N.Y. All Ideal family-size above-ground pools will be made in our new plant, for both the United States and Canadian markets.

Irwin Toy Limited also acquired exclusive Canadian rights to manufacture Pacific steel pools and the new Seven Seas PVC pools. Pacific is the largest below-ground pool manufacturer in the United States.

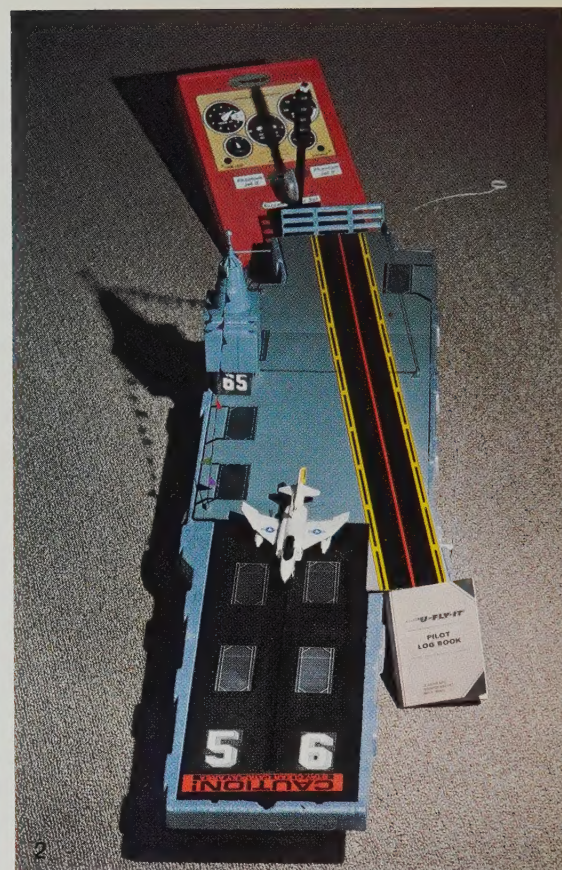
In addition, the extensive and popular line of Rapco hobby, activity kits and junior sporting goods will be made by Irwin Toy Limited.

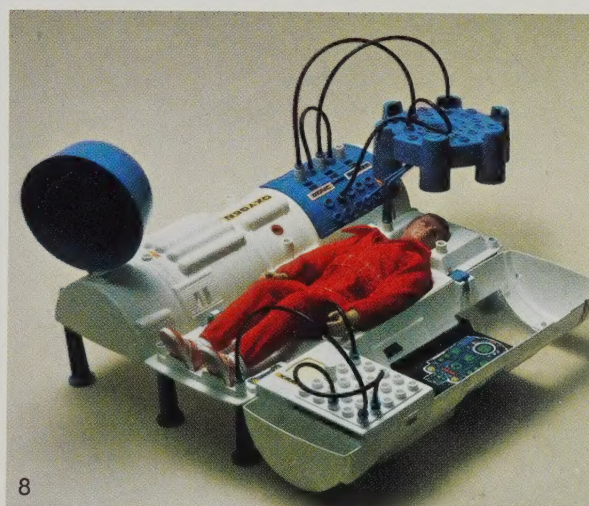
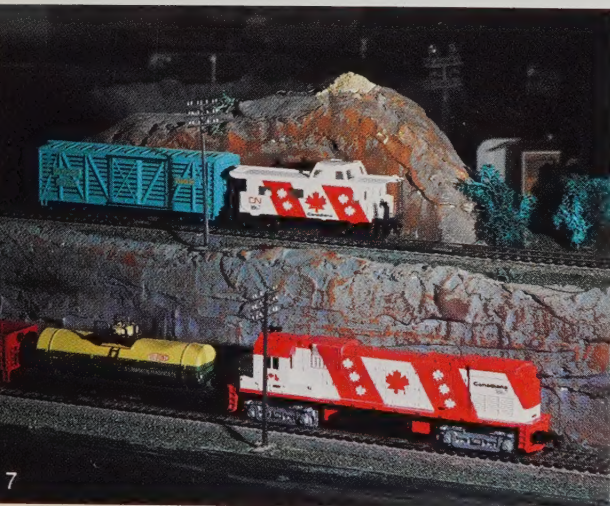
In the Irwin Specialties division exclusive rights were obtained from the new CN Tower, and Cojo, the 1976 Olympics, to supply sweat and T shirts, pennants, and a variety of other items.

Public Relations

The Samuel B. Irwin Toy Fund, 'for the protection of children', reaches across Canada with Fire Prevention and Water Safety programs for the crayon set; and Irwin personnel performs many volunteer services in the public's interests.

Leading Products for 1975





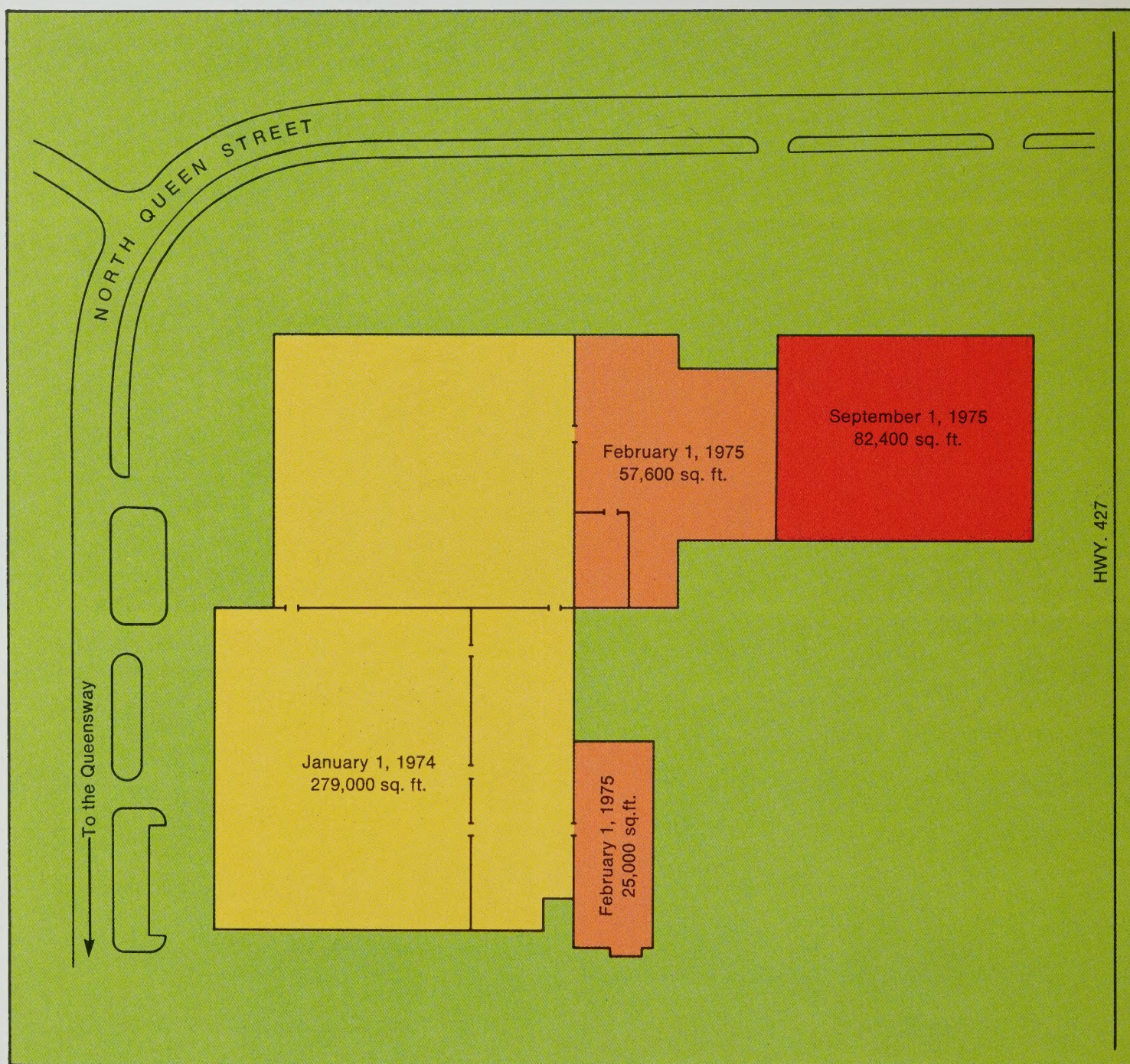
Continued product success will be supported with a major television and print campaign. These pages indicate some of the new exciting products for 1975.

- 1 T T P Cycle Action Set 1
- 2 U-Fly-It Aircraft Carrier
- 3 Rub a dub Dolly
- 4 Evel Knievel Power Toothbrush
- 5 Buddy L Brutes
- 6 In ground Pacific Pool
- 7 The New Canadiana
- 8 Six Million Dollar Man
- 9 Hurricane Hockey
- 10 Mousetrap
- 11 Shadypatch Treehouse
- 12 Above ground Ideal Pool

Distribution Centre

Our warehouse expansion of 444,000 square feet, together with 390,000 square feet at the main building, Playco and other premises provide more than one million square feet of floor space.

Constructed mostly for storage and shipping, the new building has eighteen shipping docks, facilities for inside loading and unloading of railway cars, almost one and one half miles of steel shelving and narrow-aisle double-reach trucks to stack goods up to the 24 foot ceiling.



New Facilities



▶ Irwin Specialties showroom contains some 8,000 items which are distributed to souvenir, gift and specialty shops across Canada. This division produces and markets almost 600,000 pennants and over one million sweat and T shirts per year.



▶ The first floor at 43 Hanna Avenue has been completely renovated. You will find a pleasant reception area and new customer service department.

Our new sales facilities feature a pleasant working atmosphere for the benefit of both our customers and sales staff. ▶

Playco toys are an established favorite with parents because of there quality, variety and ingenuity. Items such as Busy Faces, Busy Poppin Pals and Disney Characters are among the leaders in pre-school favorites. ▼



Auditors' Report

To the Shareholders of Irwin Toy Limited:

We have examined the consolidated balance sheet of Irwin Toy Limited and subsidiary companies as at January 31, 1975 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at January 31, 1975 and the results of their operations and the changes in financial position for the

year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We have also examined the combined statement of earnings for the year ended January 31, 1975. In our opinion this combined statement presents fairly the results of the operations as described in note 1(b) on a basis consistent with that of the preceding year.

HARBINSON, GLOVER & CO.,
Chartered Accountants.

Toronto, Ontario.
April 14, 1975.

Irwin Toy Limited and Subsidiaries

Statements of Earnings

Year ended January 31, 1975

	CONSOLIDATED (note 1)		COMBINED (note 1)	
	1975	1974	1975	1974
Gross sales of products and services	\$15,570,474	\$13,116,217	\$30,540,845	\$25,697,071
Sales tax	723,897	625,859	1,938,889	1,585,340
	<u>14,846,577</u>	<u>12,490,358</u>	<u>28,601,956</u>	<u>24,111,731</u>
Cost of products and services, selling, distribution and administrative expenses	13,405,848	11,364,262	26,208,729	22,510,470
Depreciation	257,496	159,829	318,012	197,354
Interest on long-term debt	30,537	34,041	30,537	34,041
	<u>13,693,881</u>	<u>11,558,132</u>	<u>26,557,278</u>	<u>22,741,865</u>
Earnings before income taxes	<u>1,152,696</u>	<u>932,226</u>	<u>2,044,678</u>	<u>1,369,866</u>
Income taxes:				
Current	408,000	321,000	815,200	503,000
Deferred	126,000	109,000	141,800	109,000
	<u>534,000</u>	<u>430,000</u>	<u>957,000</u>	<u>612,000</u>
Earnings before undernoted	618,696	502,226	1,087,678	757,866
Equity in net earnings of companies 50% owned (note 1 (a))	234,491	127,820		
Equity in net earnings of companies 50% owned attributable to other shareholders (note 1 (b))			234,491	127,820
Net earnings for the year	<u>\$ 853,187</u>	<u>\$ 630,046</u>	<u>\$ 853,187</u>	<u>\$ 630,046</u>
Net earnings per share	<u>\$0.35</u>	<u>\$0.26</u>	<u>\$0.35</u>	<u>\$0.26</u>

Consolidated Statement of Retained Earnings



Year ended January 31, 1975

	1975	1974
Retained earnings at beginning of year	\$ 4,937,978	\$ 4,674,352
Net earnings for the year	853,187	630,046
	<u>5,791,165</u>	<u>5,304,398</u>
Dividends — Class A and Class B convertible common shares	275,873	344,253
15% tax-paid on 1971 undistributed income	17,263	22,167
	<u>293,136</u>	<u>366,420</u>
Retained earnings at end of year	<u>\$ 5,498,029</u>	<u>\$ 4,937,978</u>

Irwin Toy Limited and Subsidiaries

Consolidated Balance Sheet

As at January 31, 1975

	1975	1974
ASSETS		
<i>Current:</i>		
Short-term deposits		\$ 116,099
Accounts receivable	\$ 3,008,938	2,462,965
Inventories, at lower of cost or net realizable value	9,419,881	6,619,095
Prepaid expenses	420,131	225,415
	<u>12,848,950</u>	<u>9,423,574</u>
<i>Life insurance:</i>		
Cash surrender value	207,797	178,531
<i>Investments:</i>		
Joint venture companies 50% owned (note 1(a))	1,277,870	1,143,379
<i>Fixed:</i>		
Land, buildings, plant and equipment at cost less accumulated depreciation of \$939,160 (1974 — \$660,314)	1,662,654	1,580,808
Approved on behalf of the Board:		
	A. B. IRWIN, Director	
	L. BOARETTI, Director	
	<u>\$15,997,271</u>	<u>\$12,326,292</u>

	1975	1974
LIABILITIES		
<i>Current:</i>		
Bank indebtedness (secured)	\$ 5,790,392	\$ 3,405,605
Accounts payable and accrued liabilities	2,595,648	1,868,917
Income and other taxes payable	662,653	745,825
Current portion of long-term debt	107,392	106,548
	<u>9,156,085</u>	<u>6,126,895</u>
<i>Long-term debt</i> (note 2)	234,316	282,059
<i>Deferred income taxes</i>	238,481	109,000
	<u>9,628,882</u>	<u>6,517,954</u>
SHAREHOLDERS' EQUITY		
<i>Capital stock:</i> (note 3)		
Authorized		
6,000,000 Class A convertible common shares without par value		
6,000,000 Class B convertible common shares without par value		
1,000 Class C common shares without par value		
Issued and fully paid		
1,485,526 Class A shares (1974 — 1,471,077)		
957,274 Class B shares (1974 — 971,723)		
<u>2,442,800</u> (1974 — <u>2,442,800</u>)	840,667	840,667
<i>Contributed surplus</i>	29,693	29,693
<i>Retained earnings</i>	5,498,029	4,937,978
	<u>6,368,389</u>	<u>5,808,338</u>
	<u>\$15,997,271</u>	<u>\$12,326,292</u>

Irwin Toy Limited and Subsidiaries

Consolidated Statement of Changes in Financial Position

Year ended January 31, 1975

	1975	1974
<i>Sources of working capital:</i>		
Net earnings for the year	\$ 853,187	\$ 630,046
Deduct: Equity in net earnings of companies 50% owned	234,491	127,820
	<u>618,696</u>	<u>502,226</u>
Dividends from companies 50% owned	100,000	300,000
Depreciation on fixed assets	257,496	159,829
Deferred income taxes	126,000	109,000
Shares issued		22,550
	<u>1,102,192</u>	<u>1,093,605</u>
<i>Applications of working capital:</i>		
Increase in cash surrender value of life insurance	29,266	29,028
Plant and equipment additions	269,539	697,653
Acquisition of subsidiary, net of working capital acquired	66,322	
Repayment of long-term debt	47,743	46,882
Dividends	275,873	344,253
15% tax-paid on 1971 undistributed income	17,263	22,167
	<u>706,006</u>	<u>1,139,983</u>
Resulting in an increase (decrease) in working capital of	396,186	(46,378)
Working capital at beginning of year	3,296,679	3,343,057
Working capital at end of year	<u>\$ 3,692,865</u>	<u>\$ 3,296,679</u>

Irwin Toy Limited and Subsidiaries

Notes to Consolidated Financial Statements

1. Summary of accounting policies

(a) Principles of consolidation

The consolidated statements contain the accounts of the Company and its wholly owned subsidiaries, Transogram Canada Limited and Playco Limited (the latter acquired as of July 1, 1974). The Company follows the equity accounting principle under which consolidated net earnings include the Company's equity in the net earnings of all joint venture companies 50% owned; the investment in these companies has been increased by the Company's share of their undistributed net earnings since acquisition and is reflected in the balance sheet at its equity in their underlying net tangible assets.

The Company owns one-half of the shares of Ideal Toy Company of Canada, Ltd., Kenner Products (Canada) Limited, Tyco Canada, Limited and IRP Limited. These companies are of a joint venture nature. The Company provides the facilities and personnel for management, administration, manufacturing, sales and distribution. Other shareholders provide research, development, production tooling and consulting services.

(b) Principles of combined statement of earnings

In the combined statement of earnings the accounts of the Company and its wholly owned subsidiaries are combined with the accounts of the joint venture companies 50% owned on a fully integrated basis. The net earnings attributable to the other joint venture shareholders reduce the combined earnings and are reflected as 'Equity in net earnings of companies 50% owned attributable to other shareholders'. It is the opinion of management that as the Company, its subsidiaries and the joint venture companies 50% owned operate together as a group, the results of operations are better disclosed on a combined basis.

(c) Inventories

Inventory amounts are based upon physical determinations at the year end and have been stated at the lower of cost or net realizable value.

(d) Fixed assets and depreciation

The Company records buildings, plant and equipment at cost. Depreciation is provided at appropriate rates to allocate original cost over the useful lives of the assets. Maintenance and repairs are charged against earnings as incurred.

(e) Income taxes

Income taxes are accounted for on the tax allocation method whereby income taxes are fully provided on reported earnings at current tax rates. Reported earnings differ from taxable income because of timing differences, principally depreciation which under income tax legislation currently exceeds the depreciation provided in the financial statements. The effect of such timing differences on income taxes otherwise payable is recognized as deferred income taxes.

2. Long-term debt

	1975	1974
7½ % first mortgage due 1987 .	\$224,708	\$235,607
9% mortgage due 1976	57,000	93,000
Mortgage due to shareholders .	60,000	60,000
	<u>341,708</u>	<u>388,607</u>
Less: Current portion due within one year	107,392	106,548
	<u>\$234,316</u>	<u>\$282,059</u>

The 9% mortgage loan is secured on land, building, machinery and equipment and other assets.

On the foregoing long-term debt, aggregate payments of principal required in each of the next five years are as follows:

\$107,392 in 1976, \$33,409 in 1977, \$13,360 in 1978, \$14,380 in 1979, \$15,479 in 1980.

3. Capital stock

(a) The Class A convertible common shares and Class B convertible common shares are fully voting, are convertible into each other on a one-for-one basis and rank equally in all respects. The only distinction between the two classes of shares is that the directors may, in declaring a dividend on the Class B shares, specify that the dividend shall be paid out of tax-paid undistributed income in which case the Company pays a tax of 15%, and the amount of the dividend received by the Class B shareholders is 85% of the amount of the ordinary dividend received at the same time by the Class A shareholders.

(b) In 1969, the Company reserved 120,000 unissued shares for the purpose of granting to certain officers and employees options to purchase shares of the Company at the market price of the shares on the date of granting of the option exercisable not later than five years from the option date. To January 31, 1975 a total of 42,800 shares were issued under this plan and options on a further 32,800 shares were outstanding at \$10¾ per share expiring May 5, 1977.

4. Remuneration of directors and officers

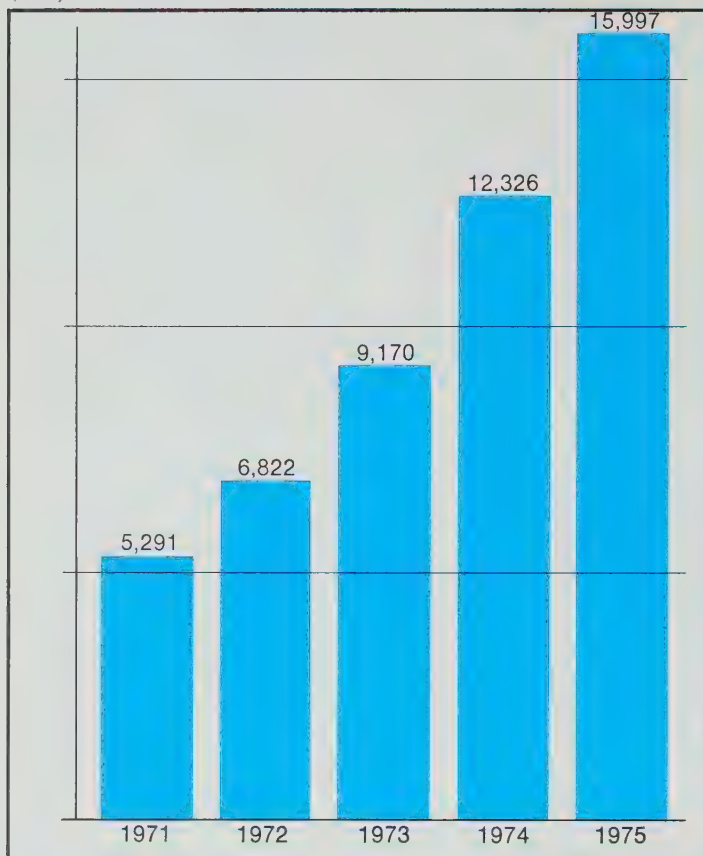
The aggregate direct remuneration of directors and senior officers of the Company for the year ended January 31, 1975 was \$172,910 (1974 — \$166,716).

5. Future commitments

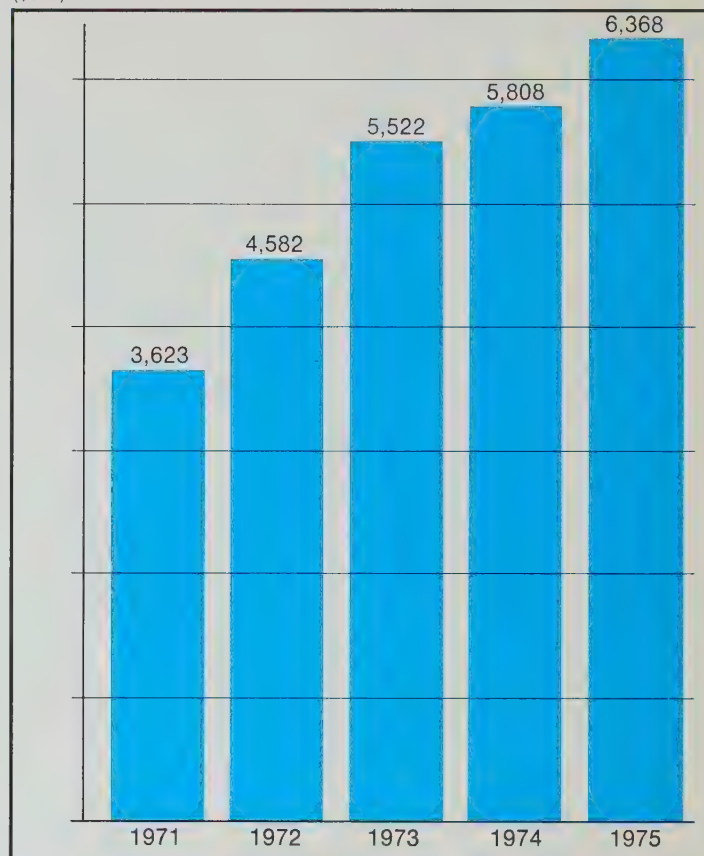
Gross annual payments under long-term leases expiring January 28, 1986 amount to approximately \$480,000.

Significant Comparisons

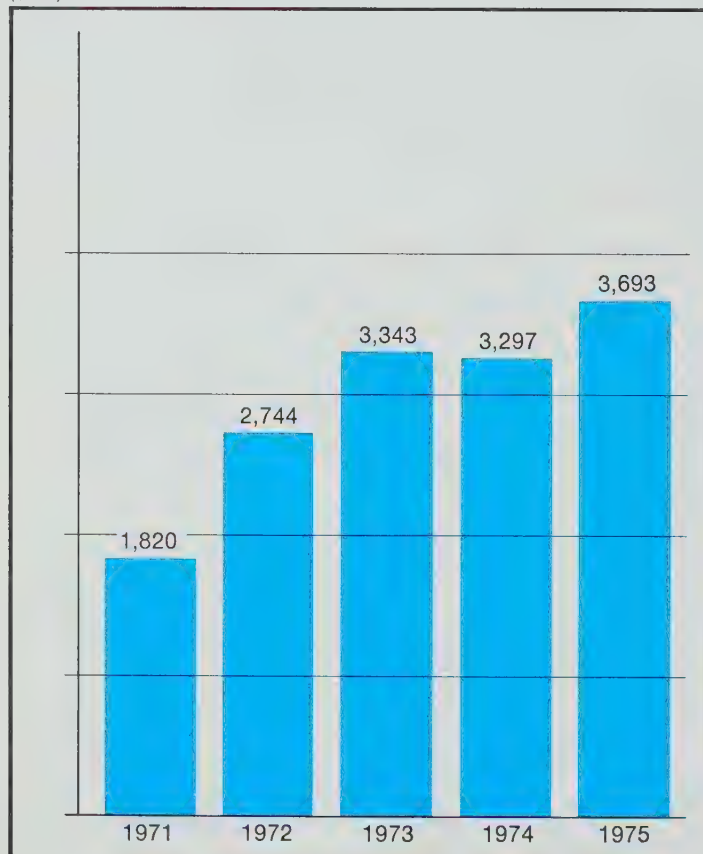
TOTAL ASSETS
(\$000)



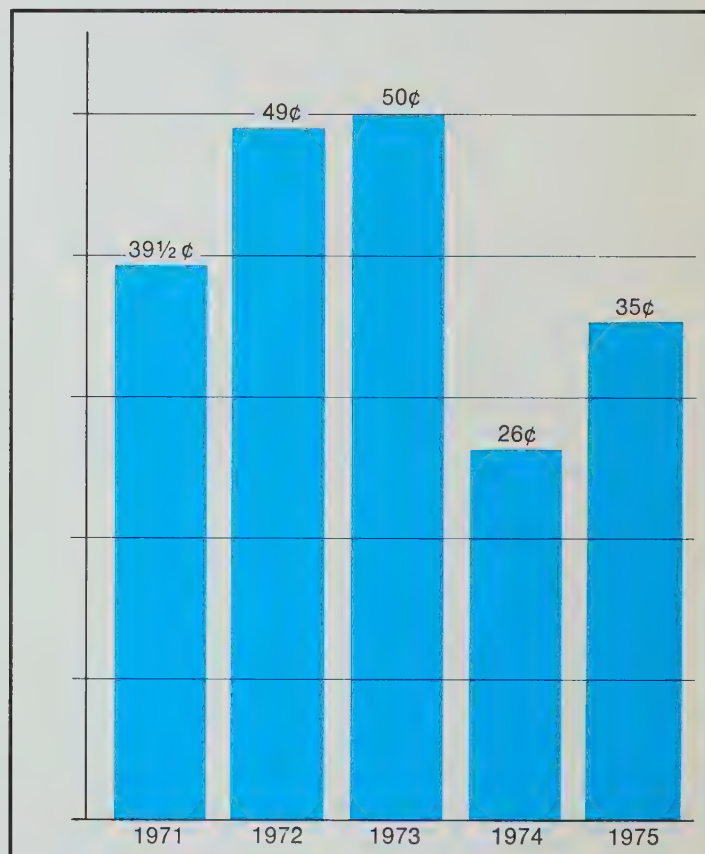
SHAREHOLDERS' EQUITY
(\$000)



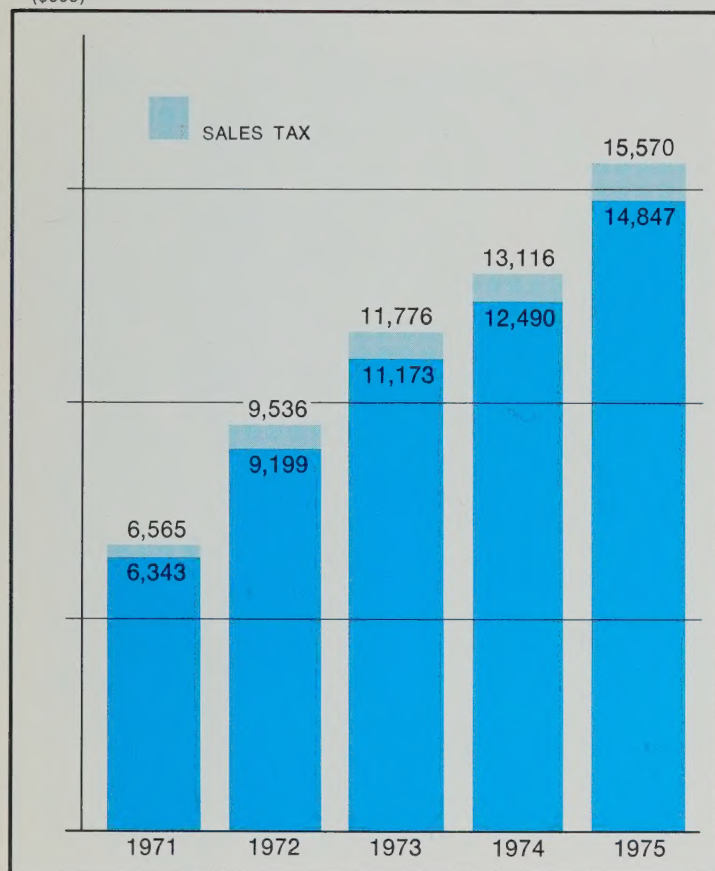
WORKING CAPITAL
(\$000)



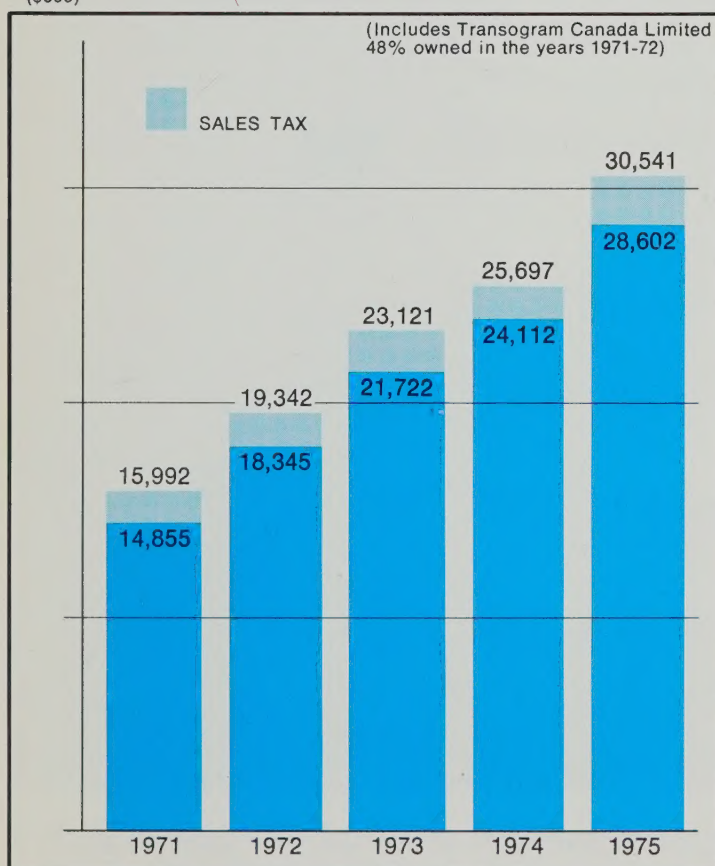
EARNINGS PER SHARE



SALES — IRWIN TOY (\$000)



SALES — IRWIN TOY AND JOINT VENTURES (\$000)



Directors and officers

Directors

Louis Boaretti
Edward J. M. Huycke, Q.C.
Arnold B. Irwin
Beatrice I. Irwin
S. Macdonald Irwin
C. Edward Medland

Officers

Arnold B. Irwin, President
S. Macdonald Irwin,
Executive Vice-President
Louis Boaretti, Vice-President
Finance, and Secretary
John Chilvers, Vice-President and
General Manager — Wholesale
Division
Jack Dyson, Vice-President — Sales

Auditors

Harbinson, Glover & Co., Toronto

Solicitors

Osler, Hoskin & Harcourt, Toronto

Transfer Agent and Registrar

The Royal Trust Company
Montreal, Toronto, Winnipeg,
Calgary and Vancouver

Irwin products

Baby toys and mobiles
Pre-school toys
Toys, games and building sets
Kiddie furniture
Hobbies and crafts
Dolls and plush toys
Train and road race sets
Backyard swings, slides and
sandboxes
Sporting goods and sports games
Inflatable mats, pools, boats and
novelties
Swim fins, snorkels and masks
Above ground pools and accessories
In ground pools



Two of Canada's most popular items come down a production line, Evel Knievel Stunt Cycles on one side and Frisbees on the other. Irwin Toy has twelve such lines, some accommodating 60 workers.

IRWIN TOY LIMITED • 43 HANNA AVENUE • TORONTO, CANADA M6K 1X6